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STATE OF MONTANA

COMPREHENSIVE EMPLOYMENT AND TRAINING ACT
SUBGRANT NUMBERS 76-56050, 76-56051,
76-56052, 76-56060, AND 76-56092
AWARDED TO THE HUMAN RESOURCES DIVISION

Report on Examination of Financial Statements

Conducted Under Contract By
Ernst and Ernst, CPA's



OFFICE OF THE LEGISLATIVE AUDITOR
STATE OF MONTANA
STATE CAPITOL • HELENA





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STATE OF MONTANA

COMPREHENSIVE EMPLOYMENT AND TRAINING ACT
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STATE CAPITOL
HELENA, MONTANA 59601
406/449-3122



MORRIS L. BRUSETT
LEGISLATIVE AUDITOR

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JOSEPH J. CALNAN
ADMINISTRATION AND
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ELLEN FEAVER
FINANCIAL-COMPLIANCE AND
CONTRACTED AUDITS

STAFF LEGAL COUNSEL
JOHN W. NORTHEY

October 13, 1977

The Legislative Audit Committee
of the Montana State Legislature:

Transmitted herewith are reports on the audit of the following
CETA subgrants awarded to the Human Resources Division of the Department
of Community Affairs:

76-56050
76-56051
76-56052
76-56060
76-56092

These audits were conducted by Ernst and Ernst, CPA's, under a
contract between the firm and our office. The comments and recommen-
dations contained in these reports represent the views of the firm and
not necessarily the Legislative Auditor.

The division's responses to the report recommendations are included
in the back of this report.

Respectfully submitted,

A handwritten signature in cursive script that reads "Morris L. Brusett".

Morris L. Brusett, CPA
Legislative Auditor

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Summary of Recommendations

CETA Subgrant Number 76-56050

CETA Subgrant Number 76-56051

CETA Subgrant Number 76-56052

CETA Subgrant Number 76-56060

CETA Subgrant Number 76-56092

Agency Replies:

Governor's Employment and Training Council

Human Resources Division

SUMMARY OF RECOMMENDATIONS

As a separate section in the front of each audit report we include a listing of all recommendations with a notation as to whether the agency concurs or does not concur with each recommendation. This listing serves as a means of summarizing the recommendations contained in the reports and the audited agency's replies thereto and also as a ready reference to the supporting comments. The full replies of the Human Resources Division and the Governor's Employment and Training Council are included in the back of this report.

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Subgrant Number 76-56050

That the division adopt a formal plan for the allocation of its administrative costs to the various subgrants it administers. 11

Agency Reply: Concur. See pages 1 and 3.

That a greater degree of care be exercised in the retention of supporting invoices and in the allocation of cost charges. 11

Agency Reply: Concur. See page 3.

Subgrant Number 76-56051

That the Human Resources Division improve its monitoring of agency operations. 12

Agency Reply: Concur. See page 4.

Subgrant Number 76-56052 and 76-56060

That the division adopt a formal plan for the allocation of its actual administration costs to the various subgrants it administers. 16 and 19 of the respective reports

Agency Reply: Concur. See pages 8 and 13.

That the division undertake the necessary steps to improve its monitoring of the operations of its various agencies. 16 and 19 of the respective reports.

Agency Reply: Concur. See pages 8 and 13.

Subgrant Number 76-56092

No specific recommendations were made, and no written response was solicited.

AUDIT REPORT

CETA SUBGRANT NUMBER 76-56050 AWARDED TO
HUMAN RESOURCES DIVISION - DEPARTMENT OF COMMUNITY AFFAIRS

HELENA, MONTANA

SUBGRANT PERIOD FROM JULY 1, 1975 TO SEPTEMBER 30, 1976

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Ernst & Ernst

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February 18, 1977

To the Legislative Audit Committee
of the Montana State Legislature:

We have examined the financial and related program records of the CETA Subgrant number 76-56050 awarded to Human Resources Division - Department of Community Affairs (Subgrantee) for the period July 1, 1975 to September 30, 1976, including transactions to the final close out at October 29, 1976. Such transactions represent expenditures incurred for discharge of cost accruals at September 30, 1976 or amounts due as of that date from various agencies with which the subgrantee contracted for services.

Except as set forth in the following paragraph regarding administration costs, our examination was made in accordance with the "Standards for Audit of Governmental Organizations, Programs, Activities and Functions" issued by the Comptroller General of the United States, applicable to examinations of financial operations and reviews of compliance with applicable laws and regulations and the CETA financial audit guide issued by the U. S. Department of Labor, and it included tests of the accounting and program records and such other auditing procedures as we considered necessary in the circumstances.

The subgrant agreement was for \$97,500.00 all of which was advanced to the subgrantee. Costs of the subgrantee totaled \$94,382.44. Of these costs \$44,920.38 were incurred at selected locations from which audit samples were drawn. As discussed in Schedule D-1, administration costs of \$19,293.70 charged to the subgrant include \$8,373.70 incurred by agencies with which the subgrantee contracted for services and \$10,920.00 charged by the subgrantee for its headquarters costs. At agency locations selected for audit we determined that those agencies did not have the details of the basis for allocation of their administration costs which in the aggregate totaled \$4,784.82. Additionally, the subgrantee had no basis for allocation of its headquarters administration costs. Instead it charged the subgrant with \$10,920.00 for administration which amount was equal to the amount budgeted. Schedules A, B, and C have been prepared on the accrual basis of accounting.

E&E

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to adequately test administration costs as noted above, Schedules A, B, and C present fairly the financial information contained therein which relates to the subgrant for the period July 1, 1975 to September 30, 1976, including transactions to the final close out at October 29, 1976.

The determination as to whether such administration costs will be allowable or unallowable under the subgrant, will be made by the Department of Labor.

We have also reviewed the areas of Compliance and Internal Control and the findings resulting from our review are presented in Schedule E.

This report is intended for use in connection with the subgrant to which it refers and should not be used for any other purpose.

Ernst & Ernst

SCHEDULE A

HUMAN RESOURCES DIVISION -
DEPARTMENT OF COMMUNITY AFFAIRS
SUBGRANT NUMBER 76-56050

STATUS OF FEDERAL FUNDS

SUBGRANT PERIOD FROM JULY 1, 1975 TO SEPTEMBER 30, 1976
(INCLUDING TRANSACTIONS TO FINAL CLOSEOUT AT OCTOBER 29, 1976)

Cash on Hand - July 1, 1975	\$	-0-
<u>Increases</u>		
Federal Cash Received		
Program Income	\$97,500.00	
	-0-	
Total Increases		<u>97,500.00</u>
Total Cash Available		97,500.00
<u>Decreases</u>		
Gross Disbursements	94,382.44	
Adjustments	-0-	
Total Decreases		<u>94,382.44</u>
Cash on Hand - at final closeout (Due Prime Sponsor)		<u>\$ 3,117.56</u>

SCHEDULE B

HUMAN RESOURCES DIVISION -
DEPARTMENT OF COMMUNITY AFFAIRS
STATEMENT OF ACCRUED EXPENDITURES
SUBGRANT PERIOD FROM JULY 1, 1975 THROUGH SEPTEMBER 30, 1976

<u>Cost Category</u>	<u>Cumulative Budget</u>	<u>Cash Disbursements</u>	<u>Accruals</u>	<u>Accrued Expenditures</u>
Administration	\$19,340.00	\$19,097.15	\$ 196.55	\$19,293.70
Training	44,400.00	42,032.28	322.71	42,354.99
Services	<u>33,760.00</u>	<u>32,399.92</u>	<u>333.83</u>	<u>32,733.75</u>
Total	<u>\$97,500.00</u>	<u>\$93,529.35</u>	<u>\$ 853.09</u>	<u>\$94,382.44</u>

SCHEDULE C

HUMAN RESOURCES DIVISION -
DEPARTMENT OF COMMUNITY AFFAIRS
ACCRUED EXPENDITURES BY PROGRAM ACTIVITY
SUBGRANT PERIOD FROM JULY 1, 1975 THROUGH SEPTEMBER 30, 1976

<u>Cost Category</u>	<u>Classroom Training</u>	<u>Total</u>
Administration	\$19,293.70	\$19,293.70
Training	42,354.99	42,354.99
Services	<u>32,733.75</u>	<u>32,733.75</u>
Total Actual to Date	<u>\$94,382.44</u>	<u>\$94,382.44</u>
Total Planned to Date	<u>\$97,500.00</u>	<u>\$97,500.00</u>

SCHEDULE D

HUMAN RESOURCES DIVISION -
DEPARTMENT OF COMMUNITY AFFAIRS
SUMMARY SCHEDULE OF QUESTIONABLE EXPENDITURES
FOR THE SUBGRANT PERIOD JULY 1, 1975 THROUGH SEPTEMBER 30, 1976

<u>Cost Category</u>	<u>Cumulative Budget</u>	<u>Accrued Expenditures</u>	<u>Amount Questioned</u>
Administration	\$19,340.00	\$19,293.70	See comments in Schedule D-1
Training	44,400.00	42,354.99	
Services	<u>33,760.00</u>	<u>32,733.75</u>	
Total	<u>\$97,500.00</u>	<u>\$94,382.44</u>	

HUMAN RESOURCES DIVISION -
DEPARTMENT OF COMMUNITY AFFAIRS
SUBGRANT NUMBER 76-56050

DETAILED SCHEDULE OF QUESTIONABLE EXPENDITURES
FOR THE SUBGRANT PERIOD JULY 1, 1975 THROUGH SEPTEMBER 30, 1976

Administration Costs

These costs include the following:

	<u>Amounts Budgeted</u>	<u>Costs Charged to Program</u>
Costs of six agencies with which the Human Resources Division contracted for services	\$ 8,420.00	\$ 8,373.70
Costs of the Human Resources Division headquarters office at Helena	<u>10,920.00</u>	<u>10,920.00</u>
Total	<u>\$19,340.00</u>	<u>\$19,293.70</u>

Of the six agencies noted above we examined records at Billings, Bozeman and Missoula. Their administration costs amounted to \$1,115.00, \$794.42, and \$2,875.40, respectively. These costs were charged to the various programs, however, the basis for allocation at each location was not available for our examination.

The amount of \$10,920.00 for administrative costs budgeted for the Helena office of the Human Resources Division was intended to cover the cost of staff salaries and allocations for overhead. Such amounts are then used to offset the headquarters office overhead without the use of a cost allocation program. No allocation program is prepared because it is felt that the amounts designated for overhead by the subgrants administered by the Division are not adequate to cover the overhead. No audit procedures could be performed to determine the amount of overhead properly allocable to this program because no records are maintained with respect to the allocation of such administration overhead.

HUMAN RESOURCES DIVISION -
DEPARTMENT OF COMMUNITY AFFAIRS
SUBGRANT NUMBER 76-56050
COMPLIANCE AND INTERNAL CONTROL

FOR THE SUBGRANT PERIOD JULY 1, 1975 THROUGH SEPTEMBER 30, 1976

A. Summary of Auditor's Observations and Recommendations

As part of our examination, we made a study of the system of internal accounting and administrative control to the extent we considered necessary to evaluate the system as required by the CETA Audit Guide.

The objective of internal accounting and administrative control is to provide reasonable, but not absolute, assurance as to the safeguarding of assets against loss from unauthorized use or disposition, and the reliability of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that the cost of a system of control should not exceed the benefits derived and also recognizes that the evaluation of these factors necessarily requires estimates and judgments by management.

There are inherent limitations that should be recognized in considering the potential effectiveness of any system of internal and administrative accounting control. In the performance of most control procedures, errors can result from misunderstanding of instructions, mistakes of judgment, carelessness or other personal factors. Control procedures whose effectiveness depends upon segregation of duties can be circumvented by collusion. Similarly, control procedures can be circumvented intentionally by management with respect to the estimates and judgments required in the preparation of financial statements. Further, projection of any evaluation of control to future periods is subject to the risk that the procedures may become inadequate because of changes in conditions and that the degree of compliance with the procedures may deteriorate.

Our study and evaluation of the system of internal accounting and administrative control for the period July 1, 1975 to September 30, 1976 would not necessarily disclose all weaknesses in the system. In our opinion, the internal accounting and administrative control procedures are in general agreement with procedures prescribed by Federal Regulations and the Department of Labor CETA guidelines which have been determined to be adequate for accountability of assets and compliance with regulations except as noted below.

HUMAN RESOURCES DIVISION -
DEPARTMENT OF COMMUNITY AFFAIRS

SUBGRANT NUMBER 76-56050

COMPLIANCE AND INTERNAL CONTROL (CONTINUED)

FOR THE SUBGRANT PERIOD JULY 1, 1975 THROUGH SEPTEMBER 30, 1976

We recommend that the Division adopt a formal plan for the allocation of its actual administrative costs to the various subgrants it administers.

At Bozeman we noted inadequate or no support for three small cost items and in addition we noted errors in the allocation of minor charges between cost categories. We recommend that a greater degree of care be exercised in the retention of supporting invoices and in the allocation of cost charges.

B. Discussion of Audit Results

The foregoing matters were discussed with the personnel at the various locations including the subgrantee's personnel at an exit conference in Helena.

This report is intended for use in connection with the subgrant to which it refers and should not be used for any other purpose.

AUDIT REPORT

CETA SUBGRANT NUMBER 76-56051 AWARDED TO
HUMAN RESOURCES DIVISION - DEPARTMENT OF COMMUNITY AFFAIRS

HELENA, MONTANA

SUBGRANT PERIOD FROM JULY 1, 1975 TO SEPTEMBER 30, 1976

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Ernst & Ernst

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February 17, 1977

To the Legislative Audit Committee
of the Montana State Legislature:

We have examined the financial and related program records of the CETA Subgrant number 76-56051 awarded to Human Resources Division - Department of Community Affairs (Subgrantee) for the period July 1, 1975 to September 30, 1976, including transactions to the final close out at November 1, 1976. Such transactions represent expenditures incurred for discharge of cost accruals at September 30, 1976 or amounts due as of that date from various agencies with which the subgrantee contracted for services.

Except as set forth in the following paragraph regarding basis for allocation of administration costs, our examination was made in accordance with the "Standards for Audit of Governmental Organizations, Programs, Activities and Functions" issued by the Comptroller General of the United States, applicable to examinations of financial operations and reviews of compliance with applicable laws and regulations and the CETA financial audit guide issued by the U. S. Department of Labor, and it included tests of the accounting and program records and such other auditing procedures as we considered necessary in the circumstances.

The subgrant agreement was for \$45,500.00 all of which was advanced to the subgrantee. Costs of the subgrantee totaled \$41,221.27. Of these costs \$25,525.54 were for selected locations from which audit samples were drawn. As discussed in Schedule D-1, administration costs include \$4,615.84 incurred at three agency locations, selected for audit, where we determined that such agencies did not have the details of the basis for allocation to the subgrant. In addition, Schedule D-1 shows that administration costs exceeded the 20% guideline by \$1,958.12 and that classification errors were made. Schedules A, B, and C have been prepared on the accrual basis of accounting.

E&E

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to adequately test administration costs at the three locations as described in the preceding paragraph, and except for the \$1,958.12 of questioned administration costs and the classification errors as referred to in the preceding paragraph, Schedules A, B, and C present fairly the financial information contained therein for the period July 1, 1975 to September 30, 1976, including transactions to the final close out at November 1, 1976.

The determination as to whether questioned costs will be allowable or unallowable under the subgrant, will be made by the Department of Labor.

We have also reviewed the areas of Compliance and Internal Control and the findings resulting from our review are presented in Schedule E.

This report is intended for use in connection with the subgrant to which it refers and should not be used for any other purpose.

Ernst + Ernst

HUMAN RESOURCES DIVISION -
DEPARTMENT OF COMMUNITY AFFAIRS
SUBGRANT NUMBER 76-56051

STATUS OF FEDERAL FUNDS

SUBGRANT PERIOD FROM JULY 1, 1975 TO SEPTEMBER 30, 1976
(INCLUDING TRANSACTIONS TO THE FINAL CLOSE OUT AT NOVEMBER 1, 1976)

<u>Cash on Hand - July 1, 1975</u>	\$	-0-
 <u>Increases</u>		
Federal Cash Received		
Program Income	\$45,500.00	-0-
Total Increases		<u>45,500.00</u>
Total Cash Available		45,500.00
 <u>Decreases</u>		
Gross Disbursements	41,221.27	
Adjustments	-0-	
Total Decreases		<u>41,221.27</u>
<u>Cash on Hand at Final Close Out (Balance due Prime Sponsor)</u>		<u>\$ 4,278.73</u>

HUMAN RESOURCES DIVISION -
DEPARTMENT OF COMMUNITY AFFAIRS
STATEMENT OF ACCRUED EXPENDITURES
SUBGRANT PERIOD FROM JULY 1, 1975 THROUGH SEPTEMBER 30, 1976

<u>Cost Category</u>	<u>Cumulative Budget</u>	<u>Cash Disbursements</u>	<u>Accruals</u>	<u>Accrued Expenditures</u>
Administration	\$ 8,450.00	\$ 7,916.22	\$ 238.61	\$ 8,154.83
Training	13,910.00	10,411.50	281.00	10,692.50
Services	23,140.00	22,136.47	237.47	22,373.94
Total	<u>\$45,500.00</u>	<u>\$40,464.19</u>	<u>\$ 757.08</u>	<u>\$41,221.27</u>

HUMAN RESOURCES DIVISION -
 DEPARTMENT OF COMMUNITY AFFAIRS
ACCRUED EXPENDITURES BY PROGRAM ACTIVITY
SUBGRANT PERIOD FROM JULY 1, 1975 THROUGH SEPTEMBER 30, 1976

<u>Cost Category</u>	<u>On-the-Job Training</u>	<u>Total</u>
Administration	\$ 8,154.83	\$ 8,154.83
Training	10,692.50	10,692.50
Services	<u>22,373.94</u>	<u>22,373.94</u>
Total Actual to Date	<u>\$41,221.27</u>	<u>\$41,221.27</u>
Total Planned to Date	<u>\$45,500.00</u>	<u>\$45,500.00</u>

HUMAN RESOURCES DIVISION -
DEPARTMENT OF COMMUNITY AFFAIRS
SUMMARY SCHEDULE OF QUESTIONABLE EXPENDITURES
FOR THE SUBGRANT PERIOD JULY 1, 1975 THROUGH SEPTEMBER 30, 1976

<u>Cost Category</u>	<u>Cumulative Budget</u>	<u>Accrued Expenditures</u>	<u>Amount Questioned</u>
Administration	\$ 8,450.00	\$ 8,154.83	\$1,958.12 of administration costs, and classification errors described in Schedule E
Training	13,910.00	10,692.50	
Services	23,140.00	22,373.94	
Total	<u>\$45,500.0</u>	<u>\$41,221.27</u>	

HUMAN RESOURCES DIVISION -
DEPARTMENT OF COMMUNITY AFFAIRS
SUBGRANT NUMBER 76-56051

DETAILED SCHEDULE OF QUESTIONABLE EXPENDITURES
FOR THE SUBGRANT PERIOD JULY 1, 1975 THROUGH SEPTEMBER 30, 1976

Close Out Report

As a result of errors in cost classifications reported by the League of Cities and Towns, an agency at Helena, to the Human Resources Division, the combined close out report of the Division is in error as noted below:

<u>Cost Category</u>	<u>Cumulative Budget</u>		<u>Accrued Expenditures (Schedule B)</u>	<u>Correct Amounts</u>	<u>Difference</u>
	<u>As Set Forth in Schedule B</u>	<u>Per Contract</u>			
Administration	\$ 8,450.00	\$ 9,100.00	\$ 8,154.83	\$10,202.37	\$2,047.54
Training	13,910.00	15,300,00	10,692.50	9,963.65	(728.85)
Services	23,140.00	21,100.00	22,373.94	21,055.25	(1,318.69)
Total	<u>\$45,500.00</u>	<u>\$45,500.00</u>	<u>\$41,221.27</u>	<u>\$41,221.27</u>	<u>\$ -0-</u>

The cumulative budget by cost category set forth in the Division's combined close out report, which is also set forth above and in Schedules B, C and D, is not in agreement with the cost classifications which are included in Modification No. 3 of the contract between the Division and the Governor's Office Employment and Training Council.

Administration Costs

These costs exceeded by \$1,958.12 the 20% guideline of administration costs to total costs.

Correct amount of administration costs shown above	\$10,202.37
20% of total costs of \$41,221.27	<u>8,244.25</u>
Difference	<u>\$ 1,958.12</u>

HUMAN RESOURCES DIVISION -
DEPARTMENT OF COMMUNITY AFFAIRS
SUBGRANT NUMBER 76-56051

DETAILED SCHEDULE OF QUESTIONABLE EXPENDITURES (CONTINUED)
FOR THE SUBGRANT PERIOD JULY 1, 1975 THROUGH SEPTEMBER 30, 1976

Administration Costs

Administration costs of certain agencies with which the Division contracted for services exceeded the 20% guideline of total budgeted and actual costs of the agencies. This in turn caused the Division to exceed the 20% guideline for total combined administration costs. Cost comparisons for these agencies are as follows:

	<u>Total Budget</u>	<u>Total Costs</u>	<u>Administration Budget</u>	<u>Administration Costs</u>
Billings (1) <u>District 7 - H.R.D.C.</u>	\$5,040.00	\$4,837.64	\$1,120.00	\$1,120.00
Bozeman (1) <u>District 9 - H.R.D.C.</u>	4,834.00	4,407.65	1,160.00	1,127.31
Havre <u>District 4 - H.R.D.C.</u>	5,244.00	4,598.51	1,370.00	1,370.00
Helena (1) <u>League of Cities and Towns</u>	7,400.00	7,368.93	1,285.00	3,312.18
Missoula (1) <u>District 11 - H.R.D.C.</u>	8,763.00	8,911.32	1,855.00	2,368.53

(1) Operations of these agencies were selected for audit by us.

The basis for allocation of administration costs at Billings, Bozeman, and Missoula was not available for our examination.

HUMAN RESOURCES DIVISION -
DEPARTMENT OF COMMUNITY AFFAIRS
SUBGRANT NUMBER 76-56051
COMPLIANCE AND INTERNAL CONTROL

FOR THE SUBGRANT PERIOD JULY 1, 1975 THROUGH SEPTEMBER 30, 1976

A. Summary of Auditor's Observations and Recommendations

As part of our examination, we made a study of the system of internal accounting and administrative control to the extent we considered necessary to evaluate the system as required by the CETA Audit Guide.

The objective of internal accounting and administrative control is to provide reasonable, but not absolute, assurance as to the safeguarding of assets against loss from unauthorized use or disposition, and the reliability of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that the cost of a system of control should not exceed the benefits derived and also recognizes that the evaluation of these factors necessarily requires estimates and judgments by management.

There are inherent limitations that should be recognized in considering the potential effectiveness of any system of internal and administrative accounting control. In the performance of most control procedures, errors can result from misunderstanding of instructions, mistakes of judgment, carelessness or other personal factors. Control procedures whose effectiveness depends upon segregation of duties can be circumvented by collusion. Similarly, control procedures can be circumvented intentionally by management with respect to the estimates and judgments required in the preparation of financial statements. Further, projection of any evaluation of control to future periods is subject to the risk that the procedures may become inadequate because of changes in conditions and that the degree of compliance with the procedures may deteriorate.

Our study and evaluation of the system of internal accounting and administrative control for the period July 1, 1975 to September 30, 1976 would not necessarily disclose all weaknesses in the system. In our opinion, the internal accounting and administrative control procedures are in general agreement with procedures prescribed by Federal Regulations and the Department of Labor CETA guidelines which have been determined to be adequate for accountability of assets and compliance with regulations except as noted below.

HUMAN RESOURCES DIVISION -
DEPARTMENT OF COMMUNITY AFFAIRS
SUBGRANT NUMBER 76-56051

COMPLIANCE AND INTERNAL CONTROL (CONTINUED)

FOR THE SUBGRANT PERIOD JULY 1, 1975 THROUGH SEPTEMBER 30, 1976

We recommend that the Human Resources Division improve its monitoring of agency operations. Improper cost classification described in Schedule D-1 not only distorts reported amounts by agencies but also distorts reported combined costs by the Division.

B. Discussion of Audit Results

At agency locations audited we discussed the results of the audit with agency personnel and, additionally, with the subgrantee's personnel at an exit conference in Helena.

This report is intended for use in connection with the administration of the CETA subgrants to which it refers and should not be used for any other purpose.

AUDIT REPORT

CETA SUBGRANT NUMBER 76-56052 AWARDED TO
HUMAN RESOURCES DIVISION - DEPARTMENT OF COMMUNITY AFFAIRS

HELENA, MONTANA

SUBGRANT PERIOD FROM SEPTEMBER 1, 1975 TO JUNE 15, 1976

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Ernst & Ernst

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February 18, 1977

To the Legislative Audit Committee
of the Montana State Legislature:

We have examined the financial and related program records of the CETA subgrant number 76-56052 awarded to Human Resources Division - Department of Community Affairs (Subgrantee) for the period September 1, 1975 to June 15, 1976, including transactions to the date of final close out at October 8, 1976. Such transactions represent expenditures incurred for discharge of cost accruals at June 15, 1976 or amounts due as of that date from various agencies with which the subgrantee contracted for services.

Except as set forth in the following paragraph regarding administration costs, our examination was made in accordance with the "Standards for Audit of Governmental Organizations, Programs, Activities and Functions" issued by the Comptroller General of the United States, applicable to examinations of financial operations and reviews of compliance with applicable laws and regulations and the CETA financial audit guide issued by the U. S. Department of Labor, and it included tests of the accounting and program records and such other auditing procedures as we considered necessary in the circumstances.

The subgrant agreement was for \$563,223.82 all of which was advanced to the subgrantee. Costs of the subgrantee totaled \$563,223.82. Of these costs \$373,070.76 were incurred at selected locations from which audit samples were drawn. As described in Schedule D-1, adequate records were not maintained at certain locations with respect to the allocation of administration overhead. In addition, Schedule D-1 also shows questioned amounts resulting from errors, and other deficiencies. Schedules A, B, and C have been prepared on the accrual basis.

E&E

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to adequately test administration costs at several locations as described in the preceding paragraph, and except for the questioned amounts resulting from errors referred to in the preceding paragraph, Schedules A, B, and C present fairly the financial information contained therein which relates to the subgrant for the period September 1, 1975 to June 15, 1976, including transactions to the date of the final close out at October 8, 1976.

The determination as to whether such costs will be allowable or unallowable under the subgrant, will be made by the Department of Labor.

We have also reviewed the areas of Compliance and Internal Control and the findings resulting from our review are presented in Schedule E.

This report is intended for use in connection with the subgrant to which it refers and should not be used for any other purpose.

Ernst & Ernst

HUMAN RESOURCES DIVISION -
DEPARTMENT OF COMMUNITY AFFAIRS
SUBGRANT NUMBER 76-56052

STATUS OF FEDERAL FUNDS

SUBGRANT PERIOD FROM SEPTEMBER 1, 1975 to JUNE 15, 1976
 (INCLUDING TRANSACTIONS TO THE DATE OF FINAL CLOSEOUT AT OCTOBER 8, 1976)

Cash on Hand - September 1, 1975

\$ -0-

Increases

Federal Cash Received - Note 1
 Program Income

\$563,223.82
-0-

Total Increases

563,223.82

Total Cash Available

563,223.82

Decreases

Gross Disbursements
 Adjustments

563,223.82
-0-

Total Decreases

563,223.82

Cash on Hand - at final closeout

\$ -0-

Note 1 - Cash received includes a final close out payment of \$17,695.82 which was received subsequent to June 15, 1976. The agreement between the Governor's Office Employment and Training Council and the Human Resources Division was last amended in August, 1976. The amendment provided for additional funds of \$13,223.82 in order that the Division could pay the remainder of its costs.

HUMAN RESOURCES DIVISION -
DEPARTMENT OF COMMUNITY AFFAIRS
STATEMENT OF ACCRUED EXPENDITURES

SUBGRANT PERIOD FROM SEPTEMBER 1, 1975 THROUGH JUNE 15, 1976

<u>Cost Category</u>	<u>Cumulative Budget</u>	<u>Cash Disbursements</u>	<u>Accrued Expenditures</u>
Administration	\$ 94,036.86	\$ 94,036.86	\$ 94,036.86
Wages	383,277.35	383,277.35	383,277.35
Fringe Benefits	27,090.36	27,090.36	27,090.36
Services	58,819.25	58,819.25	58,819.25
Total	<u>\$563,223.82</u>	<u>\$563,223.82</u>	<u>\$563,223.82</u>

HUMAN RESOURCES DIVISION -
DEPARTMENT OF COMMUNITY AFFAIRS
ACCRUED EXPENDITURES BY PROGRAM ACTIVITY
SUBGRANT PERIOD FROM SEPTEMBER 1, 1975 THROUGH JUNE 15, 1976

<u>Cost Category</u>	<u>In-School Work Experience</u>	<u>Total</u>
Administration	\$ 94,036.86	\$ 94,036.86
Wages	383,277.35	383,277.35
Fringe Benefits	27,090.36	27,090.36
Services	<u>58,819.25</u>	<u>58,819.25</u>
Total Actual to Date	<u>\$563,223.82</u>	<u>\$563,223.82</u>
Total Planned to Date	<u>\$563,223.82</u>	<u>\$563,223.82</u>

HUMAN RESOURCES DIVISION -
DEPARTMENT OF COMMUNITY AFFAIRS
SUMMARY SCHEDULE OF QUESTIONABLE EXPENDITURES
FOR THE SUBGRANT PERIOD SEPTEMBER 1, 1975 THROUGH JUNE 15, 1976

<u>Cost Category</u>	<u>Cumulative Budget</u>	<u>Accrued Expenditures</u>	<u>Amount Questioned</u>
Administration	\$ 94,036.86	\$ 94,036.86	See comments in Schedule D-1
Wages	383,277.35	383,277.35	
Fringe Benefits	27,090.36	27,090.36	
Services	<u>58,819.25</u>	<u>58,819.25</u>	
Total	<u>\$563,223.82</u>	<u>\$563,223.82</u>	

HUMAN RESOURCES DIVISION -
DEPARTMENT OF COMMUNITY AFFAIRS
DETAILED SCHEDULE OF QUESTIONABLE EXPENDITURES
SUBGRANT NUMBER 76-56052

FOR THE SUBGRANT PERIOD SEPTEMBER 1, 1975 THROUGH JUNE 15, 1976

Classification of Costs

The following schedule summarizes amounts budgeted and amounts charged to the program.

Cost category	Amounts Charged to Programs		
	Helena Division Headquarters Costs	Costs Incurred by Agencies	Total Costs
Administration	\$ 94,036.86	\$ 54,366.79	\$ 94,036.86
Wages	383,277.35	383,277.35	383,277.35
Fringe benefits	27,090.36	27,090.36	27,090.36
Services	58,819.25	58,819.25	58,819.25
Total	<u>\$563,223.82</u> (1)	<u>\$523,553.75</u> (2)	<u>\$563,223.82</u> (3)

(i) The budgeted amounts are set forth in the last amendment of the agreement between the Governor's Office Employment and Training Council and the Human Resources Division which was executed in August, 1976. The intent of the amendment was to provide the Division with sufficient additional funds in order that it could pay for the remainder of its costs for the subgrant period.

HUMAN RESOURCES DIVISION -
DEPARTMENT OF COMMUNITY AFFAIRS
DETAILED SCHEDULE OF QUESTIONABLE EXPENDITURES (CONTINUED)
SUBGRANT NUMBER 76-56052
FOR THE SUBGRANT PERIOD SEPTEMBER 1, 1975 THROUGH JUNE 15, 1976

- (2) The amount of \$39,670.07 for administrative costs budgeted for the Helena office of the Human Resources Division was intended to cover the cost of staff salaries and allocations for overhead. Such amount was then used to offset the headquarters office overhead without the use of a cost allocation program. No allocation program is prepared because it is felt that the amounts designated for overhead by the subgrants administered by the Division are not adequate to cover the overhead.
- No audit procedures could be performed to determine the amount of overhead properly allocable to this program because no records are maintained with respect to the allocation of such administration overhead.
- (3) In connection with this subgrant and other subgrants administered by the Division at various agencies with which the Division contracts for services we conducted audits of costs incurred by several agencies. The following matters came to our attention in the course of our audits of agencies whose costs are included in the total costs for this subgrant.

Billings - District 7 - H.R.D.C.

- (a) The allocation of administrative compensation to the various activities of the District is based upon estimates made by the administrator. Time sheets were not available to support the allocation. Such compensation aggregated \$6,972.83 of total administration costs of \$11,430.62.
- (b) Our tests of enrollee wages and review of enrollee personnel files disclosed the following:
- In a file for one enrollee the father was listed as a member of the household. This would have qualified the enrollee, however, the file indicates that the father pays only child support to the family. If the father is not a member of the household the enrollee would not qualify because of the income guideline. The subject enrollee was paid \$46.00 for the payroll period tested.
- In a file for another enrollee there was insufficient information to evaluate enrollee qualification in the program. The subject enrollee was paid \$39.90 for the payroll period tested.

HUMAN RESOURCES DIVISION -
DEPARTMENT OF COMMUNITY AFFAIRS
DETAILED SCHEDULE OF QUESTIONABLE EXPENDITURES (CONTINUED)
SUBGRANT NUMBER 76-56052

FOR THE SUBGRANT PERIOD SEPTEMBER 1, 1975 THROUGH JUNE 15, 1976

For one pay period tested the compensation of one person was paid at the rate of \$4.86 per hour for 80 hours of work instead of \$4.68 per hour which was the rate authorized in the personnel file. The computer service which prepared the payroll transposed the input rate at \$4.86 per hour but no corrective action was taken. This situation apparently continued for six additional payroll periods.

- (c) In a comparison of accumulated receipts with accumulated expenditures for the various months of the programs we noted that this agency tended to draw funds too rapidly from the Human Resources Division in several of the months.

Bozeman - District 9 - H.R.D.C.

- (a) No time summaries were available to support allocation of administrative and service salaries to program activities of the District. Information obtained indicates that of \$4,226.74 for administration costs \$917.05 related to salaries and of \$4,930.36 for service costs \$3,957.95 related to salaries.
- (b) Our tests of enrollee wages and review of enrollee personnel files disclosed the following:

In a file for one enrollee the family income certification indicates annual income of \$6,600.00. The guideline for the enrollee's family size is \$6,400.00

For a payroll period tested the above enrollee was paid for 23.5 hours of work at \$2.30 per hour. The time card examined showed 24.5 hours.

One cancelled payroll check in the amount of \$34.65 could not be located for examination.
- (c) In a comparison of accumulated receipts with accumulated expenditures for the various months of the program we noted that this agency tended to draw funds too rapidly from the Human Resources Division in several months.

HUMAN RESOURCES DIVISION -
DEPARTMENT OF COMMUNITY AFFAIRS
DETAILED SCHEDULE OF QUESTIONABLE EXPENDITURES (CONTINUED)
SUBGRANT NUMBER 76-56052

FOR THE SUBGRANT PERIOD SEPTEMBER 1, 1975 THROUGH JUNE 15, 1976

Butte - Silver Bow Anti-Poverty Council

- (a) In our tests of \$6,680.69 for program administration costs and \$6,441.60 for program service costs we noted that these were totalled together in the general ledger. The program administrator's work sheet to support the allocation could not be located.
- (b) Our test of enrollee wages and review of enrollee personnel files disclosed the following:
- An approval intake form for one enrollee was not in the file.
- Personnel files for certain members of the administrative and service staff were not available for our review because they apparently are not maintained. Accordingly, we were unable to compare their authorized wage rates with the wage rates shown in the payroll register for the payroll period which we tested.
- (c) In a comparison of accumulated receipts with accumulated expenditures for the various months of the program we noted that the agency tended to draw funds too rapidly from the Human Resources Division in several months.

Great Falls - Opportunities, Inc.

- (a) The allocation of administrative compensation between administration and certain service costs is judgmental. No time summaries are available to support the allocation. Such compensation amounted to \$5,951.28 of total administration costs of \$8,344.67 and to \$12,383.96 of total service costs of \$14,323.30.
- (b) Our tests of enrollee wages and review of enrollee personnel files disclosed the following:
- In a file for one enrollee we noted that the statement of family income exceeded the allowable limits for the enrollee's qualification. This person was paid \$21.00 for the payroll period tested.

HUMAN RESOURCES DIVISION -
DEPARTMENT OF COMMUNITY AFFAIRS
DETAILED SCHEDULE OF QUESTIONABLE EXPENDITURES (CONTINUED)
SUBGRANT NUMBER 76-56052

FOR THE SUBGRANT PERIOD SEPTEMBER 1, 1975 THROUGH JUNE 15, 1976

In a file for another enrollee the enrollee's intake form was not complete since information concerning labor force status was not included. This person was paid \$21.00 for the payroll period tested.

- (c) Our test of fringe benefits indicated that workmen's compensation insurance for the period October 1, 1975 to June 16, 1976 may have been over allocated by \$127.07 to this program. The problem appears to result from an erroneous method of allocating the total of the agency's insurance cost to the applicable subgrant programs it administers. For the period we calculated an allocable cost of \$1,308.42 compared to \$1,435.49 of cost included in the agency's total cost of fringe benefits.

Helena - Rocky Mountain Development Council

- (a) The allocation of administrative compensation between administration and service costs is a judgmental estimate. No time summaries are available to support the allocation. Such compensation amounted to \$1,641.60 of total administration costs of \$3,592.36 and to \$1,635.60 of total service costs of \$2,469.55.
- (b) The Council included a \$900.00 charge for rental of facilities in its charge to the program's administrative costs for the period. However, there was no formal agreement with respect to the cost of space to be utilized for administration of the program.
- (c) Our tests of enrollee wages and review of enrollee personnel files disclosed the following:
- One enrollee was paid for 16 hours for the payroll period tested, however, 18 hours were shown on the time sheet. He was paid \$33.60 for the 16 hours.
- Another enrollee was paid for 10 hours for the payroll period tested, however, 14 hours were shown on the time sheet. Additionally, we noted no approval of his time sheet. He was paid \$21.80 for the 10 hours.

HUMAN RESOURCES DIVISION -
DEPARTMENT OF COMMUNITY AFFAIRS
DETAILED SCHEDULE OF QUESTIONABLE EXPENDITURES (CONTINUED)
SUBGRANT NUMBER 76-56052

FOR THE SUBGRANT PERIOD SEPTEMBER 1, 1975 THROUGH JUNE 15, 1976

Missoula - District 11 - H.R.D.C.

- (a) This agency's administration costs of \$5,801.51 included a flat charge of \$2,000.00 for estimated overhead. No support was available for calculation of this amount charged to costs.
- (b) The allocation of administrative compensation between administration costs and service costs is a judgmental estimate. No time summaries were available to support the allocation. The records appear to indicate that administrative compensation was \$2,673.25 of total administration costs of \$5,801.51 and service compensation was \$5,121.30 of total service costs of \$6,079.69.
- (c) Our tests of enrollee wages and review of enrollee personnel files disclosed the following:
 - One employee was paid for 18 hours for the payroll period tested. The hours were apparently obtained over the telephone and the work supervisor evidently did not follow up on the actual approved time sheet which indicated 16 hours instead of 18. This person was paid \$37.80 for the 18 hours.
 - The time sheet for another employee which showed 20 hours worked was not approved. This person was paid \$46.00 for the 20 hours.

HUMAN RESOURCES DIVISION -
DEPARTMENT OF COMMUNITY AFFAIRS
GRANT NUMBER 76-56052
COMPLIANCE AND INTERNAL CONTROL

FOR THE SUBGRANT PERIOD SEPTEMBER 1, 1975 THROUGH JUNE 15, 1976

A. Summary of Auditor's Observations and Recommendations

As part of our examination, we made a study of the system of internal accounting and administrative control to the extent we considered necessary to evaluate the system as required by the CETA Audit Guide.

The objective of internal accounting and administrative control is to provide reasonable, but not absolute, assurance as to the safeguarding of assets against loss from unauthorized use or disposition, and the reliability of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that the cost of a system of control should not exceed the benefits derived and also recognizes that the evaluation of these factors necessarily requires estimates and judgments by management.

There are inherent limitations that should be recognized in considering the potential effectiveness of any system of internal and administrative accounting control. In the performance of most control procedures, errors can result from misunderstanding of instructions, mistakes of judgment, carelessness or other personal factors. Control procedures whose effectiveness depends upon segregation of duties can be circumvented by collusion. Similarly, control procedures can be circumvented intentionally by management with respect to the estimates and judgments required in the preparation of financial statements. Further, projection of any evaluation of control to future periods is subject to the risk that the procedures may become inadequate because of changes in conditions and that the degree of compliance with the procedures may deteriorate.

Our study and evaluation of the system of internal accounting and administrative control for the period September 1, 1975 to June 15, 1976 would not necessarily disclose all weaknesses in the system. In our opinion, the internal accounting and administrative control procedures are in general agreement with procedures prescribed by Federal Regulations and the Department of Labor CETA guidelines which have been determined to be adequate for accountability of assets and compliance with regulations except as noted below.

HUMAN RESOURCES DIVISION -
DEPARTMENT OF COMMUNITY AFFAIRS
SUBGRANT NUMBER 76-56052

COMPLIANCE AND INTERNAL CONTROL (CONTINUED)

FOR THE SUBGRANT PERIOD SEPTEMBER 1, 1975 THROUGH JUNE 15, 1976

Administration Costs

We recommend that the Division adopt a formal plan for the allocation of its actual administration costs to the various subgrants it administers.

General

The matters described in Schedule D-1 which came to our attention in our audits of the costs of the agencies suggest that the Human Resources Division is not properly monitoring the agencies with which it contracts for services.

We recommend that the Division undertake the necessary steps to improve its monitoring of the operations of its various agencies in order that their accounting will be improved and that their charges to the programs which they administer will be made on a proper basis, both as to direct costs and as to allocable costs with proper support for all of such costs.

B. Discussion of Audit Results

The foregoing matters which came to our attention were discussed with personnel at each location which we visited for audit. Additionally, we discussed these matters with the subgrantee's personnel at an exit conference in Helena.

This report is intended for use in connection with the administration of the CETA subgrants to which it refers and should not be used for any other purpose.

AUDIT REPORT

CETA SUBGRANT NUMBER 76-56060 AWARDED TO
HUMAN RESOURCES DIVISION - DEPARTMENT OF COMMUNITY AFFAIRS

HELENA, MONTANA

SUBGRANT PERIOD FROM JUNE 1, 1976 TO SEPTEMBER 30, 1976

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Ernst & Ernst

2700 Seattle-First National Bank Bldg • 1001 Fourth Ave • Seattle, WA 98154 • Phone 206/622-0610

February 18, 1977

To the Legislative Audit Committee
of the Montana State Legislature:

We have examined the financial and related program records of the CETA Subgrant number 76-56060 awarded to the Human Resources Division - Department of Community Affairs (Subgrantee) for the period June 1, 1976 to September 30, 1976, including transactions to the date of final close out at October 29, 1976. Such transactions represent expenditures incurred for discharge of cost accruals at September 30, 1976 or amounts due as of that date from various agencies with which the subgrantee contracted for services.

Except as set forth in the following paragraph regarding administration costs, our examination was made in accordance with the "Standards for Audit of Governmental Organizations, Programs, Activities and Functions" issued by the Comptroller General of the United States, applicable to examinations of financial operations and reviews of compliance with applicable laws and regulations and the CETA financial audit guide issued by the U.S. Department of Labor, and it included tests of the accounting and program records and such other auditing procedures as we considered necessary in the circumstances.

The subgrant agreement was for \$1,604,752.00 of which \$1,599,582.00 was advanced to the subgrantee. Costs of the subgrantee totaled \$1,554,609.22. Of these costs \$1,021,349.99 were incurred at selected locations from which audit samples were drawn.

As described in Schedule D-1, adequate records were not maintained at certain locations with respect to the allocation of administration overhead. In addition, Schedule D-1 also shows questioned amounts resulting from errors, and other deficiencies. Schedules A, B, and C have been prepared on the accrual basis.

E&E

Ernst & Ernst

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to adequately test administration costs at several locations as described in the preceding paragraph, and except for the questioned amounts resulting from errors referred to in the preceding paragraph, Schedules A, B, and C present fairly the financial information contained therein which relates to the subgrant for the period June 1, 1976 to September 30, 1976, including transactions to the date of final close out at October 29, 1976.

The determination as to whether such costs will be allowable or unallowable under the subgrant, will be made by the Department of Labor.

We have also reviewed the areas of Compliance and Internal Control and the findings resulting from our review are presented in Schedule E.

This report is intended for use in connection with the subgrant to which it refers and should not be used for any other purpose.

Ernst + Ernst

HUMAN RESOURCES DIVISION -
DEPARTMENT OF COMMUNITY AFFAIRS
SUBGRANT NUMBER 76-56060

STATUS OF FEDERAL FUNDS

SUBGRANT PERIOD FROM JUNE 1, 1976 TO SEPTEMBER 30, 1976
 (INCLUDING TRANSACTIONS TO THE DATE OF FINAL CLOSEOUT AT OCTOBER 29, 1976)

Cash on Hand - June 1, 1976

\$ -0-

Increases

Federal Cash Received
 Program Income

\$1,599,582.00
-0-

Total Increases

1,599,582.00

Total Cash Available

1,599,582.00

Decreases

Gross Disbursements
 Adjustments

1,554,609.22
-0-

Total Decreases

1,554,609.22

Cash on Hand - at final closeout (Due Prime Sponsor)

\$ 44,972.78

HUMAN RESOURCES DIVISION -
DEPARTMENT OF COMMUNITY AFFAIRS
STATEMENT OF ACCRUED EXPENDITURES

SUBGRANT PERIOD FROM JUNE 1, 1976 THROUGH SEPTEMBER 30, 1976

<u>Cost Category</u>	<u>Cumulative Budget</u>	<u>Cash Disbursements</u>	<u>Accrued Expenditures</u>
Administration	\$ 146,918.00	\$ 133,089.37	\$ 133,089.37
Wages	1,191,276.61	1,185,103.26	1,185,103.26
Fringe Benefits	108,293.39	89,097.56	89,097.56
Services	158,264.00	147,319.03	147,319.03
Total	<u>\$1,604,752.00</u>	<u>\$1,554,609.22</u>	<u>\$1,554,609.22</u>

HUMAN RESOURCES DIVISION -
DEPARTMENT OF COMMUNITY AFFAIRS
ACCURED EXPENDITURES BY PROGRAM ACTIVITY
SUBGRANT PERIOD FROM JUNE 1, 1976 THROUGH SEPTEMBER 30, 1976

<u>Cost Category</u>	<u>Work Experience</u>	<u>Total</u>
Administration	\$ 133,089.37	\$ 133,089.37
Wages	1,185,103.26	1,185,103.26
Fringe Benefits	89,097.56	89,097.56
Services	<u>147,319.03</u>	<u>147,319.03</u>
Total Actual to Date	<u>\$1,554,609.22</u>	<u>\$1,554,609.22</u>
Total Planned to Date	<u>\$1,604,752.00</u>	<u>\$1,604,752.00</u>

HUMAN RESOURCES DIVISION -
DEPARTMENT OF COMMUNITY AFFAIRS
SUMMARY SCHEDULE OF QUESTIONABLE EXPENDITURES
FOR THE SUBGRANT PERIOD JUNE 1, 1976 THROUGH SEPTEMBER 30, 1976

<u>Cost Category</u>	<u>Cumulative Budget</u>	<u>Accrued Expenditures</u>	<u>Amount Questioned</u>
Administration	\$ 146,918.00	\$ 133,089.37	
Wages	1,191,276.61	1,185,103.26	
Fringe Benefits	108,293.39	89,097.56	See Comments in Schedule D-1
Services	<u>158,264.00</u>	<u>147,319.03</u>	
Total	<u>\$1,604,752.00</u>	<u>\$1,554,609.22</u>	

HUMAN RESOURCES DIVISION -
DEPARTMENT OF COMMUNITY AFFAIRS
SUBGRANT NUMBER 76-56060

DETAILED SCHEDULE OF QUESTIONABLE EXPENDITURES

FOR THE SUBGRANT PERIOD JUNE 1, 1976 THROUGH SEPTEMBER 30, 1976

Classification of Costs

The following schedule summarizes amounts budgeted and amounts charged to the program.

Cost Category	Amounts Budgeted	Amounts Charged to Programs		
		Helena Division Headquarters Costs	Costs Incurred by Agencies	Total Costs
Administration	\$ 146,918.00	\$25,479.20	\$ 107,610.17	\$ 133,089.37
Wages	1,191,276.61	-0-	1,185,103.26	1,185,103.26
Fringe benefits	108,293.39	-0-	89,097.56	89,097.56
Services	158,264.00	-0-	147,319.03	147,319.03
Total	<u>\$1,604,752.00</u>	<u>\$25,479.20</u> (1)	<u>\$1,529,130.02</u> (2)	<u>\$1,554,609.22</u>

(1) The amount of \$25,479.20 for administration costs budgeted for the Helena office of Human Resources Division was intended to cover the cost of staff salaries and allocations for overhead. Such amount was then used to offset the headquarters office overhead without the use of a cost allocation program. No allocation program is prepared because it is felt that the amounts designated for overhead by the subgrants administered by the Division are not adequate to cover the overhead.

No audit procedures could be performed to determine the amount of overhead properly allocable to this program because no records are maintained with respect to the allocation of such administration overhead.

HUMAN RESOURCES DIVISION -
DEPARTMENT OF COMMUNITY AFFAIRS
SUBGRANT NUMBER 76-56060
DETAILED SCHEDULE OF QUESTIONABLE EXPENDITURES (CONTINUED)
FOR THE SUBGRANT PERIOD JUNE 1, 1976 THROUGH SEPTEMBER 30, 1976

(2) In connection with this subgrant and other subgrants administered by the Division at various agencies with which the Division contracts for services we conducted audits of costs incurred by several agencies. The following matters came to our attention in the course of our audits of agencies whose costs are included in the total costs for this subgrant.

Billings - District 7 - H.R.D.C.

(a) The allocation of administrative compensation to the various activities of the District is based upon estimates made by the administrator. Time sheets were not available to support the allocation of a portion of compensation charged to the program. Total compensation aggregated \$7,087.34 of total administration costs of \$13,952.95.

Bozeman - District 9 - H.R.D.C.

(a) Our tests of enrollee wages for certain pay periods tested disclosed seven errors or deficiencies:

<u>Enrollee</u>	<u>Hours Per Time Card</u>	<u>Total Hours Paid</u>	<u>Rate Per Hour</u>	<u>Gross Wages</u>
1.	61.5	62	\$2.30	\$142.60
2.	64	104	2.30	239.20
3.	91	101	2.50	252.50
4.	117.5	118	2.30	271.40
5.	Note 1	112	3.50	392.00
6.	Note 2	100	2.50	250.00
7.	Note 3	120	2.30	276.00

HUMAN RESOURCES DIVISION -
DEPARTMENT OF COMMUNITY AFFAIRS
SUBGRANT NUMBER 76-56060
DETAILED SCHEDULE OF QUESTIONABLE EXPENDITURES (CONTINUED)
FOR THE SUBGRANT PERIOD JUNE 1, 1976 THROUGH SEPTEMBER 30, 1976

Note 1 - Time card had a notation "plus 24 hours for June"; days worked in June were not shown.

Note 2 - Time card was not properly filled out; only total hours for the pay period were shown.

Note 3 - Time card had a notation "plus 32 hours"; days worked were not shown.

(b) We also noted that two duplicate checks were written, one in September for \$148.61 and one in October for \$135.52. These were charged to administration costs and represented replacement checks for checks which had been lost or stolen and had been cashed.

Butte - Silver Bow Anti-Poverty Council

(a) Our tests of enrollee wages for certain pay periods and of personnel files disclosed the following:

One enrollee did not qualify for the program based on family income of \$13,000.00 and four members in the family. He was paid \$92.00 for 40 hours worked during the payroll period tested at the rate of \$2.30 per hour.

Personnel files were not available for three persons nor formal support for their pay rates was available:

1. Paid \$340.00
2. Paid \$280.00
3. Paid \$280.00

Great Falls - Opportunities, Inc.

(a) Administration costs of \$18,974.51 which were charged to the program include the following:

Staff compensation of four persons \$12,619.80

HUMAN RESOURCES DIVISION -
DEPARTMENT OF COMMUNITY AFFAIRS
SUBGRANT NUMBER 76-56060

DETAILED SCHEDULE OF QUESTIONABLE EXPENDITURES (CONTINUED)
FOR THE SUBGRANT PERIOD JUNE 1, 1976 THROUGH SEPTEMBER 30, 1976

Fringe benefits:	
Medical insurance	\$ 568.75
Social security	660.35
Workmen's compensation insurance	69.46
Unemployment insurance	169.36
	<u>1,467.92</u>

Other costs:	
Travel	941.23
Insurance	79.08
Rent	750.00
Supplies, telephone, postage, and printing	1,882.93
Equipment rental and purchases	1,233.55
	<u>4,886.79</u>
Total	<u>\$18,974.51</u>

Comments with respect to the foregoing cost charges follow.

Travel costs of \$941.23 include gasoline and other charges to transport enrollees plus \$175.84 for tires. No approved purchase order was attached to the claim form for this purchase of tires.

Rent of \$750.00 represents ten month's rent at \$75.00 per month. The bookkeeper stated to us that this summer program picked up the expense because the program had the money. No rental agreement nor basis of allocation of the rental were available. The \$750.00 charge appears to be excessive.

HUMAN RESOURCES DIVISION -
DEPARTMENT OF COMMUNITY AFFAIRS
SUBGRANT NUMBER 76-56060

DETAILED SCHEDULE OF QUESTIONABLE EXPENDITURES (CONTINUED)
FOR THE SUBGRANT PERIOD JUNE 1, 1976 THROUGH SEPTEMBER 30, 1976

Equipment rental and purchase costs of \$1,233.55 include the following:

Rental of two typewriters for use in the summer months	\$ 210.00
Purchase of a calculator	129.95
Purchase of an IBM selectric typewriter to replace one which was stolen in April 1976 (there was no approved purchase order to support this purchase)	630.00
Other rentals	<u>263.60</u>
Total	<u>\$1,233.55</u>

It appears that the purchase of the calculator and typewriter were not justified for this short-term program.

Additionally, the property inventory list attached to this agency's close out report submitted to the Human Resources Division lists three 1976 purchases; the calculator for \$129.95 noted above, the IBM typewriter noted above (listed at \$680.00 instead of \$630.00), and a manual Royal typewriter for \$150.00. We were unable to determine to which cost category the \$150.00 typewriter was charged.

- (b) Our tests of enrollee wages for certain pay periods and of personnel files disclosed the following:
- 89.5 hours worked by one enrollee for which he was paid \$235.63 appeared to exceed guidelines for this program of 40 hours per week since he worked 41.5 hours one week and 48 hours another week. He was paid overtime on the excess of 9.5 hours.

HUMAN RESOURCES DIVISION -
DEPARTMENT OF COMMUNITY AFFAIRS
SUBGRANT NUMBER 76-56060

DETAILED SCHEDULE OF QUESTIONABLE EXPENDITURES (CONTINUED)
FOR THE SUBGRANT PERIOD JUNE 1, 1976 THROUGH SEPTEMBER 30, 1976

Another enrollee to whom \$147.20 was paid for 64 hours of work may not have qualified for the program. Family income for the twelve month period prior to his application exceeded the CETA poverty guidelines. The agency thought that the guideline was to be compared with the prior year's twelve month income.

In two other cases the family income related to the enrollees involved exceeded the CETA poverty guideline. One enrollee was paid \$73.60 for 32 hours of work and another was paid \$52.76 for 22.94 hours of work.

For one enrollee who was paid \$73.60 for 32 hours of work, we could not determine from our review of his personnel file if his family income was within the CETA poverty guideline. It appears that his personnel file was defective insofar as proper disclosure of facts.

Helena - Rocky Mountain Development Council

(a) Administration costs of \$5,316.85 which were charged to the program included the following:

Salaries	\$3,308.80
Fringe benefits	362.27
Facility rental	550.00
Other costs	<u>1,095.78</u>
Total	<u>\$5,316.85</u>

The basis for allocation of the facility rental was not available although the \$550.00 above appears reasonable for the four month period.

Other costs of \$1,095.78 include a charge of \$65.00 per month for four months for bookkeeping services. The bookkeeping service wrote a check to itself monthly. The financial director approved the claim although an invoice was not submitted.

HUMAN RESOURCES DIVISION -
DEPARTMENT OF COMMUNITY AFFAIRS
SUBGRANT NUMBER 76-56060

DETAILED SCHEDULE OF QUESTIONABLE EXPENDITURES (CONTINUED)
FOR THE SUBGRANT PERIOD JUNE 1, 1976 THROUGH SEPTEMBER 30, 1976

(b) Our tests of enrollee wages for certain pay periods and of personnel files disclosed the following:

One enrollee was paid \$73.60 for 32 hours of work at the rate of \$2.30 per hour. We noted that the enrollee's time report was not signed by him nor approved.

One enrollee was paid \$46.00 for 20 hours of work at the rate of \$2.30 per hour. We noted that the enrollee's family income exceeded guidelines for the economically disadvantaged as provided by CETA guidelines.

One enrollee was paid \$92.00 for 40 hours of work at the rate of \$2.30 per hour. No time report was available. Additionally, we noted that the enrollee's family income exceeded guidelines for the economically disadvantaged as provided by CETA guidelines.

(c) Service costs of \$4,906.56 which were charged to the program included the following:

Salaries	\$3,657.77
Fringe benefits	305.79
Other costs	<u>943.00</u>
Total	<u>\$4,906.56</u>

Our tests of compensation for three staff personnel for a pay period tested indicated that no formal pay rate authorization was available for examination. Additionally, time sheets for these persons could not be located. Persons paid for the period tested included the following:

1. 75 hours at \$2.60	\$ 195.00
2. 80 hours at \$3.75	300.00
3. 76 hours at \$2.60	197.60

HUMAN RESOURCES DIVISION -
DEPARTMENT OF COMMUNITY AFFAIRS
SUBGRANT NUMBER 76-56060

DETAILED SCHEDULE OF QUESTIONABLE EXPENDITURES (CONTINUED)
FOR THE SUBGRANT PERIOD JUNE 1, 1976 THROUGH SEPTEMBER 30, 1976

Additionally, we noted that other costs of \$943.00 included an insurance premium of \$312.00 to Buckland Insurance on August 30, 1976. This premium represents the cost of a liability policy for enrollees for the period July 20, 1976 to July 20, 1977 which was not prorated among programs sponsored by the agency based on the period of coverage.

Missoula - District 11 - H.R.D.C.

(a) Administration costs of \$24,916.52 include the following:

Costs for District 11	\$11,263.51
Costs for District 10 (not audited)	<u>13,653.01</u>
Total	<u>\$24,916.52</u>

Our examination of costs for District 11 disclosed that there was no support for allocation to the program of a portion of \$1,775.50 of salaries for a pay period tested. Total salaries for District 11 for the four month period were \$6,324.40.

Additionally, we noted that District 11 costs included a flat charge of \$1,500.00 for overhead and a flat charge of \$520.00 for 4,000 postage stamps. No basis of allocation was available for the \$1,500.00 charge nor was there an accounting for the use of the 4,000 postage stamps.

(b) Service costs of \$27,360.57 include the following:

Costs of District 11	\$14,711.69
Costs of District 10 (not audited)	<u>12,648.88</u>
Total	<u>\$27,360.57</u>

HUMAN RESOURCES DIVISION -
DEPARTMENT OF COMMUNITY AFFAIRS
SUBGRANT NUMBER 76-56060
DETAILED SCHEDULE OF QUESTIONABLE EXPENDITURES (CONTINUED)
FOR THE SUBGRANT PERIOD JUNE 1, 1976 THROUGH SEPTEMBER 30, 1976

- Our examination of costs for District 11 disclosed that there was no support for allocation to the program of a portion of \$3,833.50 of counselors' salaries for a pay period tested.
- (c) Our tests of enrollee wages for certain pay periods and of personnel files of District 11 disclosed the following:
- One enrollee was paid \$101.20 for 44 hours worked at the rate of \$2.30 per hour. The enrollee's personnel file did not contain certain information regarding family income. We had to refer to subject enrollee's brother's personnel file to establish eligibility based on family income.
- (d) A bookkeeping service which assists the agency retains certain claim forms and documents which more appropriately belong in the agency's files.

HUMAN RESOURCES DIVISION -
DEPARTMENT OF COMMUNITY AFFAIRS
SUBGRANT NUMBER 76-56060
COMPLIANCE AND INTERNAL CONTROL

FOR THE SUBGRANT PERIOD JUNE 1, 1976 THROUGH SEPTEMBER 30, 1976

A. Summary of Auditor's Observations and Recommendations

As part of our examination, we made a study of the system of internal accounting and administrative control to the extent we considered necessary to evaluate the system as required by the CETA Audit Guide.

The objective of internal accounting and administrative control is to provide reasonable, but not absolute, assurance as to the safeguarding of assets against loss from unauthorized use or disposition, and the reliability of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that the cost of a system of control should not exceed the benefits derived and also recognizes that the evaluation of these factors necessarily requires estimates and judgments by management.

There are inherent limitations that should be recognized in considering the potential effectiveness of any system of internal and administrative accounting control. In the performance of most control procedures, errors can result from misunderstanding of instructions, mistakes of judgment, carelessness or other personal factors. Control procedures whose effectiveness depends upon segregation of duties can be circumvented by collusion. Similarly, control procedures can be circumvented intentionally by management with respect to the estimates and judgments required in the preparation of financial statements. Further, projection of any evaluation of control to future periods is subject to the risk that the procedures may become inadequate because of changes in conditions and that the degree of compliance with the procedures may deteriorate.

Our study and evaluation of the system of internal accounting and administrative control for the period June 1, 1976 to September 30, 1976 would not necessarily disclose all weaknesses in the system. In our opinion, the internal accounting and administrative control procedures are in general agreement with procedures prescribed by Federal Regulations and the Department of Labor CETA guidelines which have been determined to be adequate for accountability of assets and compliance with regulations except as noted below.

HUMAN RESOURCES DIVISION -
DEPARTMENT OF COMMUNITY AFFAIRS
SUBGRANT NUMBER 76-56060

COMPLIANCE AND INTERNAL CONTROL (CONTINUED)

FOR THE SUBGRANT PERIOD JUNE 1, 1976 THROUGH SEPTEMBER 30, 1976

Administration Costs

We recommend that the Division adopt a formal plan for the allocation of its actual administration costs to the various subgrants it administers.

General

The matters described in Schedule D-1 which came to our attention in our audits of the costs of the agencies suggest that the Human Resources Division is not properly monitoring the agencies with which it contracts for services.

We recommend that the Division undertake the necessary steps to improve its monitoring of the operations of its various agencies in order that their accounting will be improved and that their charges to the programs which they administer will be made on a proper basis, both as to direct costs and as to allocable costs with proper support for all of such costs.

B. Discussion of Audit Results

The foregoing matters which came to our attention were discussed with personnel at each location which we visited for audit. Additionally, we discussed these matters with the subgrantee's personnel at an exit conference in Helena.

This report is intended for use in connection with the administration of the CETA subgrants to which it refers and should not be used for any other purpose.

AUDIT REPORT

CETA SUBGRANT NUMBER 76-56092 AWARDED TO
HUMAN RESOURCES DIVISION - DEPARTMENT OF COMMUNITY AFFAIRS

HELENA, MONTANA

SUBGRANT PERIOD FROM JUNE 1, 1976 TO SEPTEMBER 30, 1976

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Ernst & Ernst

2700 Seattle-First National Bank Bldg • 1001 Fourth Ave • Seattle, WA 98154 • Phone 206/622-0610

February 16, 1977

To the Legislative Audit Committee
of the Montana State Legislature:

We have examined the financial and related program records of the CETA subgrant number 76-56092 awarded to Human Resources Division - Department of Community Affairs (Subgrantee) for the period June 1, 1976 to September 30, 1976, including transactions to the final close out at October 21, 1976. Such transactions represent expenditures incurred for discharge of cost accruals at September 30, 1976 or amounts due as of that date from various agencies with which the subgrantee contracted for services.

Our examination was made in accordance with the "Standards for Audit of Governmental Organizations, Programs, Activities and Functions" issued by the Comptroller General of the United States, applicable to examinations of financial operations and reviews of compliance with applicable laws and regulations and the CETA financial audit guide issued by the U.S. Department of Labor. It included tests of the accounting and program records and such other auditing procedures as we considered necessary in the circumstances.

The subgrant agreement was for \$70,000.00 all of which was advanced to the subgrantee. Costs of the subgrantee totaled \$65,735.63. Of these costs \$36,231.74 were selected at one location from which audit samples were drawn. Schedule D lists no questionable expenditures disclosed by our sample. Schedules A, B, and C have been prepared on the accrual basis of accounting.

In our opinion, these schedules present fairly the financial information contained therein which relates to the subgrant for the period June 1, 1976 to September 30, 1976, including transactions to the final close out at October 21, 1976.

We have also reviewed the areas of Compliance and Internal Control and the findings resulting from our review are presented in Schedule E.

This report is intended for use in connection with the subgrant to which it refers and should not be used for any other purpose.

Ernst & Ernst

E&E

HUMAN RESOURCES DIVISION -
DEPARTMENT OF COMMUNITY AFFAIRS
SUBGRANT NUMBER 76-56092

STATUS OF FEDERAL FUNDS

SUBGRANT PERIOD FROM JUNE 1, 1976 TO SEPTEMBER 30, 1976
 (INCLUDING TRANSACTIONS TO THE FINAL CLOSE OUT AT OCTOBER 21, 1976)

<u>Cash on Hand - June 1, 1976</u>	\$ -0-
<u>Increases</u>	
Federal Cash Received	\$70,000.00
Program Income	<u>-0-</u>
Total Increases	<u>70,000.00</u>
Total Cash Available	70,000.00
<u>Decreases</u>	
Gross Disbursements	65,735.63
Adjustments	<u>-0-</u>
Total Decreases	<u>65,735.63</u>
<u>Cash on Hand - at final close out (Due Prime Sponsor)</u>	<u>\$ 4,264.37</u>

SCHEDULE B

HUMAN RESOURCES DIVISION -
DEPARTMENT OF COMMUNITY AFFAIRS
STATEMENT OF ACCRUED EXPENDITURES
SUBGRANT PERIOD FROM JUNE 1, 1976 THROUGH SEPTEMBER 30, 1976

<u>Cost Category</u>	<u>Cumulative Budget</u>	<u>Cash Disbursements</u>	<u>Accruals</u>	<u>Accrued Expenditures</u>
Administration	\$ 5,205.00	\$ 5,584.72	\$ -0-	\$ 5,584.72
Training	28,538.00	21,989.70	-0-	21,989.70
Services	<u>36,257.00</u>	<u>38,161.21</u>	<u>-0-</u>	<u>38,161.21</u>
Total	<u>\$70,000.00</u>	<u>\$65,735.63</u>	<u>-0-</u>	<u>\$65,735.63</u>

HUMAN RESOURCES DIVISION -
DEPARTMENT OF COMMUNITY AFFAIRS
ACCURED EXPENDITURES BY PROGRAM ACTIVITY
SUBGRANT PERIOD FROM JUNE 1, 1976 THROUGH SEPTEMBER 30, 1976

<u>Cost Category</u>	<u>Classroom Training</u>	<u>Total</u>
Administration	\$ 5,584.72	\$ 5,584.72
Training	21,989.70	21,989.70
Services	<u>38,161.21</u>	<u>38,161.21</u>
Total Actual to Date	<u>\$65,735.63</u>	<u>\$65,735.63</u>
Total Planned to Date	<u>\$70,000.00</u>	<u>\$70,000.00</u>

HUMAN RESOURCES DIVISION -
DEPARTMENT OF COMMUNITY AFFAIRS
SUMMARY SCHEDULE OF QUESTIONABLE EXPENDITURES
FOR THE SUBGRANT PERIOD JUNE 1, 1976 THROUGH SEPTEMBER 30, 1976

<u>Cost Category</u>	<u>Cumulative Budget</u>	<u>Accrued Expenditures</u>	<u>Amount Questioned</u>
Administration	\$ 5,205.00	\$ 5,584.72	
Training	28,538.00	21,989.70	No costs questioned
Services	<u>36,257.00</u>	<u>38,161.21</u>	
Total	<u>\$70,000.00</u>	<u>\$65,735.63</u>	

C. (continued)

In reviewing enrollee P. D₆ personnel file, I find all signatures present as witnessed by enclosed documentation.

In conclusion, I find the auditors did a very thorough audit with the exception of the "Audit Report." I find it hard to believe comments on questioned costs are now being solicited for a program which was operated 9/1/75 - 5/31/76. District #11 is continually reminded of the importance of being punctual with reports, files, etc. This should also be required of the Department of Community Affairs/Human Resource Division, Governor's Employment and Training Council and CETA, specifically in the area of audits.

Schedule E

Administration Costs

As already stated the Human Resources Division has submitted an Indirect Cost Allocation to the Department of Labor.

General

On-Site monitoring is now done on a regular basis by the Human Resources Division.

SCHEDULE E

HUMAN RESOURCES DIVISION -
DEPARTMENT OF COMMUNITY AFFAIRS
SUBGRANT NUMBER 76-56092

COMPLIANCE AND INTERNAL CONTROL (CONTINUED)

FOR THE SUBGRANT PERIOD JUNE 1, 1976 THROUGH SEPTEMBER 30, 1976

B. Discussion of Audit Results

As subgrantee, the Human Resources Division allocated subgrant funds received to two programs, one at AFL-CIO in Helena, and one at the National Center for Career Education in Missoula. In addition to our audit of the accounting for funds received by the subgrantee and the disbursement thereof to the two agencies, we also conducted an audit of program operations at the AFL-CIO. Our comments above relate to the subgrantee's operations and to those at the AFL-CIO. There were no significant findings as a result of the audit, and we did relate this result to the accounting staff at the AFL-CIO and, additionally, to the subgrantee's personnel at an exit conference in Helena.

This report is intended for use in connection with the administration of the CETA subgrant to which it refers and should not be used for any other purpose.

AGENCY REPLIES

State of Montana
Office of The Governor
Helena 59601

THOMAS L. JUDGE
GOVERNOR

GOVERNOR'S EMPLOYMENT
& TRAINING COUNCIL

October 12, 1977

Legislative Audit Committee
Montana State Legislature
Office of the Legislative Auditor
State Capitol
Helena, Montana 59601

Gentlemen:

Enclosed are the audit drafts and response for the Human Resources Division CETA Fiscal Year 1976 subgrants 76-56050, 76-56051, 76-56060 and 76-56092.

We consider the response satisfactory. Subgrant 76-56092 did not require a response as there were no questionable costs nor exceptions noted.

The Human Resources Division has submitted a Cost Allocation Plan, which we are in the process of reviewing. We are confident that a plan once approved will eliminate many of the problems brought out in the audit, especially those relating to the charging of administrative costs.

Subgrants 76-56050 and 76-56051 were for the Classroom Training and On-the-Job Training programs. These two programs are no longer operated by the Human Resources Division.

Sincerely,


BRUCE H. DEROSIER
Executive Director

Enclosures

September 23, 1977

MEMORANDUM

TO: Bruce DeRosier
Governor's Employment and Training Council

FROM: *[Signature]* Jim Nolan, Assistant Administrator
Human Resources Division

RE: Responses to audit exceptions

Enclosed are the responses to the audit exceptions for Subgrant Numbers 76-56052, 76-56050, 76-56060, and 76-56051.

If you need further information or have questions, please do not hesitate to call.

cct
Enc.

1. The Human Resources Division has submitted an Indirect Cost Allocation Plan to the Department of Labor for approval. When approved, the Administrative charges will be corrected.

2. The District IX Human Resource Development Council in Bozeman previously contracted their bookkeeping services to an accounting firm. This has recently been changed, and an in-house bookkeeper has been hired. In the future, I am sure, a greater degree of care will be exercised in the retention of supporting invoices and in the allocation of cost charges.

D. The Human Resources Division did not take any Administrative money from this program and at the time did not monitor the program very well. The over expenditures in the Administration category at the local level were not realized by the Human Resources Division until the program was ended. As a result, the Human Resources Division has implemented a better financial tracking system for all grants. All categories are now monitored on a monthly basis to insure the expenditure rates are within CETA guidelines. On site visits are also done more extensively not to further insure that costs are charged to the proper categories at the time they occur.

E. The Human Resource Division is now monitoring each program better. A staff person is assigned to each program and is responsible for the programmatic and financial aspects. On-site monitoring is done at a minimum of once each quarter.

Schedule D-1 (2)

The Human Resources Division has submitted an Indirect Cost Allocation Plan to the Department of Labor for approval. When this plan is approved, the Administrative costs will be allocated equally to all programs and this will be corrected.

Billings - District 7 - Human Resource Development Council

A. The methods for keeping track of Administrative costs in the operation of the In-School Program will be changed to reflect the exact amount of time and cost to be charged to Administration.

B. Check #1019 - The monthly salary of \$530.00 included income, plus child support payments. The parent worked only nine months of the previous year, so a family of five would qualify.

Check #413 - The father had been unemployed and recovering from heart surgery. He had just returned to work two weeks prior to application. Accident casualty insurance, etc. are excluded from the annual income (CETA Instrucion 33-75).

Check #162 - The situation was corrected as soon as discovered.

C. District VII Human Resource Development Council feels they did not draw down funds too quickly.

Bozeman - District IX - Human Resource Development Council

A. In order to provide adequate time summaries to support allocation of administrative and service salaries, a cost accounting procedure has been established. The costs in question seem to evolve around the 1/2-time administrator, 1/2-time manpower services position with the In-School program. In order to get an accurate picture of how the time is spent so that it can be charged to the right category, the person in question will document, every half hour, how the time is spent for one month. All tasks will be divided into administration functions, manpower services functions, and travel time will be charged to the appropriate function, unless both administration and manpower services were provided in that travel time, in which case the travel time will be divided proportionately.

B. In the file for B.A. it was noted that the family income certification indicated that the annual income was \$200.00 over the federal poverty guidelines. This was a mistake, which was made by our office in not catching the fact that this youth did not qualify. The youth is no longer working under the work experience program, although his living situation has changed and he is now a ward of the state and does, in fact, qualify.

The mistake made in adding up the hours worked on B.A.'s time card has been dealt with by double checking the time cards.

C. The requisitioning of funds in relation to accumulated expenditures was only a problem the first few months of this 76-56052 contract because the program needed to be set up from scratch, youth located, and income qualified and appropriate job sites located. This took longer than was expected so the accumulated costs for enrollee wages was less than was originally anticipated. The program now is well known by the youth, low-income families, and social services agencies and many job sites are available so that problem has been alleviated.

Butte-Silver Bow Anti-Poverty Council

A. Separate ledger sheets are now maintained by the bookkeeper. The program administrator's work sheet was available to the auditors, but not requested.

B. The administrative personnel files are maintained in the central office. No administrative pay raises have been given for the past five years, so there was no formal support. This has been corrected.

Great Falls - Opportunities, Incorporated

A. Allocation of Administrative Costs:

In the In-School program 1975-76 there was not enough administrative costs money allocated to pay the director's salary. Therefore 25% of her salary had to be taken out of Counseling Services.

B. Check #154

Office staff had not taken line #11 as they should have, instead they had qualified this person under the unemployment section of #7. They (staff) were told by the director if unemployment entered they picture to qualify the applicant.

Check #108

The original intake form was left in the file room. The Labor force status was or has been checked since the audit. If it was not checked at the time it was fault of the staff.

C. Fringe Benefits, Namely Workmen's Compensation

When Workmen's Compensation is figured it is done on a pro-rata percentage method depending on category. We are enclosing worksheets used to determine allocation of costs for each month questioned:

October '75	75.69	April '76	219.46
November '75	100.24	May '76	270.89
December '75	160.99	June '76	14.76
January '76	115.44		<u>1,378.71</u>
February '76	156.38	Prem. Dep.	56.78
March '76	264.86		<u>1,439.49</u>

SEPTEMBER 1, 1975 - June 15, 1976(continued page 3)

C. (continued)

*YEC enrollees are under the second highest category we have. They are as follows:

- 8868 - Colleges or Schools \$.24 per \$100.00
- *9101 - All other employees \$3.13 per \$100.00
- 8810 - Clerical \$.39 per \$100.00
- 8742 - Salesmen \$1.31 per \$100.00
- 7380 - Chauffers \$4.40 per \$100.00

For the period in question the total gross wages paid was \$424,361.78 of which \$62,618.18 was YEC Enrollee wages or 14.75% of total wages. The total premiums due for the same period was \$4,270.00 of which YEC enrollees paid \$1,378.81 or 32.40% of total premiums. \$1,435.49 charged to the 1975-76 In-School Program. The total deposit premium charged to YEC In-School was \$56.78 which is only 4.73% of the \$1,199.00 total due for the year. We therefore do not feel that his amount is in any way excessive.

Helena - Rocky Mountain Development Council

A. No absolute determination can realistically be made as to exact time divided between administration and services. The observation of the sponsor and activities of the director dictated the conclusion that the director's time was divided approximately equal.

B. Facility cost is predicated on the amount of space necessary to effectively operate the program. Since the sponsor and the lessee are one and the same, Rocky Mountain Development Council was lacking a party with which to enter into a formal agreement.

C. In answer to the remaining questions concerning checks numbered 2499, 190, and 856, payroll hours are taken by phone every other Friday. A time sheet, which should reflect the same hours as did the phone conversation, is expected by this office on Tuesday. Some time sheets do not reflect the hours established by the previous phone call; this is due to negligence on the part of the job site supervisors. Every effort has been made to recover those time sheets in question. Enclosed are copies of letters issued to the supervisors in an attempt to communicate the importance of these time sheets. My staff has also made personal appearances to deal with the time sheet situation and we are seeking solutions to this problem. See attached memos concerning time sheets.

Missoula - District XI - Human Resource Development Council

A & B. The agency's administrative flat charge of \$2,000.00 should have been \$2,815.00 as reflected in supportive documentation enclosed. The \$815.00 difference was costed to District XI's Community Services Administration funds. Administrative costs are based on historical sponsorship of Youth Programs.

C. Enrollee L. B. was paid for 18 hours as witnessed by enclosed documentation. He had worked 18 hours prior to being sent to Miles City by local courts. Because of his absence, enrollee's signature could not be obtained. Work Supervisor verified enrollee's time by phone. I have no idea where the figure of 16 hours even entered the matter.

C. (continued)

In reviewing enrollee P. D's personnel file, I find all signatures present as witnessed by enclosed documentation.

In conclusion, I find the auditors did a very thorough audit with the exception of the "Audit Report." I find it hard to believe comments on questioned costs are now being solicited for a program which was operated 9/1/75 - 5/31/76. District #11 is continually reminded of the importance of being punctual with reports, files, etc. This should also be required of the Department of Community Affairs/Human Resource Division, Governor's Employment and Training Council and CETA, specifically in the area of audits.

Schedule E

Administration Costs

As already stated the Human Resources Division has submitted an Indirect Cost Allocation to the Department of Labor.

General

On-Site monitoring is now done on a regular basis by the Human Resources Division.

June 1, 1976 through September 30, 1976

Schedule D-1

1. The Human Resources Division has submitted an Indirect Cost Allocation Plan to the Department of Labor for approval. When this plan is approved the Administrative costs will be allocated equally to all programs and this will be corrected.

Billings - District 7 - Human Resource Development Council

A. The method for keeping track of Administrative costs in the operation of the Summer Program for Economically Disadvantaged Youth will be changed to reflect the exact amount of time and costs to be charged to administration.

Bozeman - District 9 - Human Resource Development Council

A. Enrollee D.S. (ck. 834) and enrollee B.D. (ck. 480) - there is a discrepancy between the amount of time shown on the time card and the actual number of hours for which the enrollee was paid. (61.5 has shown on time card - enrollee B.D. was paid for 118 hours.) At the time this occurred the counselor calculating the gross wages owed the enrollees rounded the hours off to the nearest whole number. This was the only time this mistake was made and the staff has been informed that rounding the time off to the nearest whole number is not an accepted practice. Gross pay is calculated on the actual time shown on the time card.

Enrollee D.P. (ck. 157) - the time card showed 64 hours but the enrollee was paid for 104 hours. That is a 40 hour discrepancy in hours not accounted for. During the pay period preceeding enrollee D.P. worked at the Agronomy Station for 40 hours and then attended the World of Work Program in Helena the next week. D.P.'s time card for the preceeding pay period reflected only the time for the World of Work attendance. He was not paid for the 40 hours he worked at the Agronomy Station the week preceeding his attendance at the World of Work so that 40 hours was added on to the next pay period. Unfortunately, there was no notation on the time card as to why the 40 hours was added on. James Lowe, the job site supervisor at the Agronomy Station was contacted and he varified that enrollee D. P. did, in fact, work 40 hours preceeding his attendance at the World of Work but since Mr. Lowe did not have a time card he simply called in the time for D.P. The error here seems to be in lack of proper documentation of hours actually worked on the time card. The wages paid to the enrollee is actual and correct.

Enrollee P.E. (ck. #307) was paid for 101 hours but his time card only showed 91 hours actually worked. This was a mistake in adding the total amount of time worked and the mistake was not caught because the time cards were not double checked. At the suggestion of the auditor the standard operating procedures since that time has been that the calculations of hours worked and wages due are done by one person so that hopefully those kinds of mistakes in simple addition are alleviated.

Enrollee S.M. and S.R. (note 1 and note 3) both showed time not paid for the previous pay periods being added on to the next pay period. The reason the amount of hours worked the previous pay period were not correct is because the counselor picked up the time cards before the enrollees had a chance to make a complete record of the hours actually worked. There was not adequate documentation of why these hours were added on although the time actually worked was varified by both the youth and their job site supervisor over the telephone. The procedure for handling this kind of situation now is to have the enrollee and job site supervisor fill out another time card showing the actual days worked and which pay period this represents instead of just adding the time onto the next pay period - a practice which does not provide proper documentation of the time. The number of hours worked by enrollees has been and always will be varified by the job site supervisor either in person with signatures, or when that is not possible because of distance and inclement weather, by telephone. Often times enrollees do not remember that pay time is coming and fail to have their time cards filled out completely.

Enrollee C.Y. (ck. #319, note 2) - the time card was not properly filled out, only the total amount of hours were shown. Enrollee C.Y. worked for the City of West Yellowstone. When payroll time arrived the job site supervisor for the City of West Yellowstone (Mayor Spainhower) reported the time for the enrollees over the telephone and gave only the total number of hours. Presently, standard procedure, when time is taken over the telephone, a duplicate time card is made out in this office showing only the total hours worked and the original time card is mailed to the HRDC office and stapled to the duplicate. In the case of CY the original time card was lost by the City of West Yellowstone, so only the duplicate remains on file.

B. The two duplicate checks that were written to replace checks that were stolen should have been charged to the Enrollee Wages and fringe category, but were mistakenly charged to the Administration category. This was a bookkeeping error. At the time, District IX HRDC contracted with a separate accounting firm for all bookkeeping. The problem with this is that there was not direct and immediate feedback concerning the accounts. This problem was alleviated by District IX HRDC hiring an In-House bookkeeper so that there is immediate feedback as to which costs should be charged to each specific category. One of the checks in question was stolen from the enrollee's job site, the other was stolen from the enrollee's home. In both cases the enrollees involved offered to voluntarily take a lie detector test, although this was not done. The stolen checks were reported to the police, who in turn, investigated the situation but found no leads as to who had stolen the checks. In order to prevent this, the supervisor and/or the youth (whomever is receiving the check) must sign for the check. We have not experienced another stolen check since that time.

Butte-Silver Bow Anti-Poverty Council

A. First of all for the summer program, this refers to M H of Dillon. M 's step-father is over the income guidelines, but after talking to the school principal and the counselor, I decided to check with the Human Resources office. I was told to get written documentation that this boy was in a special situation, and if this documentation was obtained and sent to your office, to go ahead and allow him to work in the program. Enclosed find copies of two

letters which were sent to the office in Helena. (Incidentally, M. H. is still working in our program in Dillon, and he is doing a good job.)

The Administrative personnel files are maintained in the central office. No administrative pay raises have been given for the past five years, so there was no formal support. This has been corrected.

Great Falls Opportunities, Incorporated

A. This was apparently a clerical error and we try not to let this happen. We shall be more careful in the future.

Rent to \$750.00 For SPEDY Program

Opportunities, Inc. pays \$1,200.00 to the Deaconess Medical Center for utilities each month, the space itself is donated. YEC occupies the entire first floor with the exception of one (1) room. Based on 20% of the total building, which consists of four (4) floors it pro rates to \$240.00 per month. During the In-School program there are no funds available for utilities or space costs. Due to the fact that Opportunities, Inc. CSA Grant funds pay all the utilities for the remaining nine (9) months we do not feel \$75.00 per month is excessive.

Purchase of Equipment

A police report was sent to the State of Montana listing the theft of equipment which included a typewriter and a calculator belonging to YEC. This theft was in May and the large SPEDY was about to begin. It would be quite difficult to operate that on any other program without the equipment. Therefore we feel the purchase was indeed justified.

The Purchase of Royal Manual Typewriter

As our District includes six (6) counties we opened an office in Conrad which is more centrally located than Great Falls. We have a youth counselor housed in that office and therefore there was a need for equipment which included a typewriter. This typewriter was budgeted for and the budget was approved by the Department of Community Affairs, to come out of SPEDY administrative costs.

B. Check #2685

E worked for YEC at Adams Creek Thinning Crew. The crew would leave on a Tuesday morning and return to Great Falls ten (10) days later on a Thursday. Every other pay day they would receive one extra day on their checks. This was approved verbally by John Allen. This information was received by Darlene Gustovich former director of Youth Employment Corps.

Check #2617

Instructions were given to staff to take #11 on the application to use for income for the family. Yearly income for the family was \$4,000.00. CSA Poverty Guidelines allowed \$4,600.00 for a family of three (3) members.

Check #2199

In computing income line #6 was multiplied by twelve (12) rather than taking line number eleven (11) as what should have been done. K was taken off the program when error was discovered.

Check #2206

M. was mistakenly put on the program due to a clerical error in computing income. He was taken off the program immediately when the error was detected.

Check #2212

J's family income for the last twelve (12) months was \$3,000.00. CSA Guidelines for a family of seven (7) was \$8,200.00. On the application it should be noted the heads of household were unemployed for three (3) months out of the last twelve (12) months. Family was definitely within the guidelines.

Helena - Rocky Mountain Development CouncilA. Administration Costs

The costs of services for the facility is allocated on the basis of the amount of area used in the operation of the program. RMDC leases space from the City on a square foot basis. Each program pays the exact square foot costs that RMDC is charged for the space the program occupies.

The costs of bookkeeping services is \$65.00 per month for each of the programs operated by the sponsor. A new contract is now in effect between RMDC and Associated Management Service.

B. Check #2158

Corey was enrolled June 18, 1976. Several days prior to that time, C's mother, who was the sole support of the family, received a back injury which prohibited her from working. When C was enrolled, the family had no income. Since then Mrs. H. has been unemployed and living on ADC.

Check #2822

A. P. was enrolled 6-7-76. At her time of enrollment, her father was receiving fixed term Workers' Compensation payments. This is listed as an exclusion in the Federal regulations, received through Montana CETA Instruction #21-77 dated 7-6-77. The appropriate section is on page 5, number 2 under "Exclusions from Family Income - General", subsection vii - Fixed Term Workers' Compensation Awards. At the present time, A's father is in the Veterans' Hospital.

A's time sheet is not on file. However, the hours she received pay for were earned. Payroll is taken on every other Friday by phone. The time sheet is expected in this office by mail on the following Monday. The job site supervisor failed to comply with this regulation. Special efforts were made to recover the necessary time sheet; however, the job site supervisor failed to comply with our requests.

C. Staff personnel were paid at the rate mutually agreed upon at the time the SPEDY Program started. The director was cognizant of the hours worked by each employee and made the entries directly on the payroll sheet.

The insurance policy was taken out on the advice and consent of the Department of Community Affairs. The difference in costs between a full or partial year was negligible and since the far greater expense is experienced during the SPEDY portion of the youth employment programs and no In-School funds were available at the policy anniversary, it indicated good fiscal judgement to purchase an annual policy. The policy in question covers only Neighborhood Youth Corps. In-School and SPEDY.

Missoula District XI Human Resource Development Council

A. & B. Missoula District XI Human Resource Development Council, page 16, Number 76-56060, 6/1/76 - 9/30/76.

1. Questioned Costs.

Staff salaries have historically been split between Manpower Services and Administration. Until such time when staff are not required to provide administrative services, this is in accordance with CETA regulations.

The flat charge of \$1,500.00 for overhead was reimbursement to District XI HRDC for accounting cost incurred during program period. You will note the actual cost to District XI exceeded reimbursements by \$1,100.00 as witnessed by enclosed documentation.

C. Enrollee C - T 's personnel file revealed the following as witnessed by accompanying documentation. Enrollee's application for registration listed income as Social Security and income was also reflected on the CETA Client Intake Information form.

D. The service of the CPA firm has been discontinued and all forms and documents are appropriately within agency files as per recommended.

Schedule E

Administration Costs

As already stated the Human Resources Division has submitted an Indirect Cost Allocation to the Department of Labor.

General

On-site monitoring is now done on a regular basis by the Human Resources Division.



Public Community Action agency serving Broadwater, Jefferson and Lewis and Clark counties.

ROCKY MOUNTAIN DEVELOPMENT COUNCIL

P. O. Box 721 • 201 South Last Chance Gulch • Helena, Montana 59601 • (406) 442-1552

Council Programs include Head Start • VISTA • Community Action • Helena Indian Alliance • Family Planning • Youth Conservation Corps • SPEDY • In School Youth Program • RSVP • Senior Center • Area IV Council on Aging • Foster Grandparent • Daily Dinner Club

December 29, 1975

TO: ALL NYC ENROLLEES

FR: JEANNINE BROWN, DIRECTOR

RE: NYC PAYROLL POLICY

I am writing to inform you that it is your responsibility to see that a time sheet is turned in for the hours you worked in any two week period. If I do not receive the time sheet, I am unable to give you your check.

Help your supervisor to remember that a time sheet should be sent to my office every two weeks. Don't be penalized for failing to sent the sheet in. The only one who suffers is you.

If you have any questions regarding this policy, please feel free to contact me at 442-1552.

Thank You,

Jeannine Brown
Jeannine Brown, Director
Neighborhood Youth Corps



Public Community Action agency serving Broadwater, Jefferson and Lewis and Clark counties

ROCKY MOUNTAIN DEVELOPMENT COUNCIL

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December 8, 1975

TO: ALL NYC JOE STELS

FR: JEANNINE BROWN, DIRECTOR

RE: NYC PAYROLL POLICY

It has been my finding, that all the time sheets needed for a complete file on the enrollee has not been fulfilled.

In the future, all time sheets must be on my desk by the following Tuesday after payroll has been taken by phone. If this request is not met, the pay checks cannot be delivered.

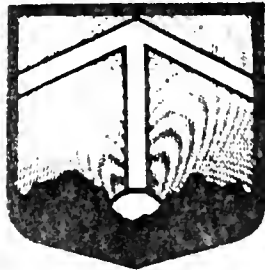
Please do not penalize your enrollee by failing to conform with the needs of this office. I do not believe this request is unfair. At any work site a time sheet is required.

If you have any questions, please feel free to contact me at 442-1552.

Thank you,

Jeannine Brown
Jeannine Brown
NYC Director

RMDC



Public Community Action agency serving Broadwater, Jefferson and Lewis and Clark counties

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December 31, 1975

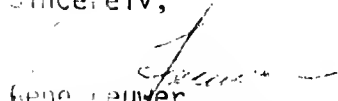
Dear Project Supervisors,

On December 29, 1975 a memo was sent from this office requesting all job site supervisors to insure that all time sheets of NYC enrollees be submitted to this office in a timely manner.

There has been some misunderstanding as to the effect any action taken for non-compliance of this request would have on the NYC enrollees. To clarify this situation, please understand, the enrollee will not be penalized in any fashion either through loss of working hours or through failure to receive his or her check. The enrollee will simply be moved to an alternate job site until such time as his or her former job site complies with the request for the timely submission of the enrollee's time sheets.

I hope this clears up any misunderstanding that may have arisen. Thank you for your time.

Sincerely,


Gene Leuwer
Executive Director

GL/ae

July 22, 1977

To: All Site Supervisors

Fr: Jeannine Brown, Neighborhood Youth Corp Director

Re: Time Sheets

Please note that all time sheets must be properly completed and returned to this office no later than Tuesday after payroll has been taken.

